

**Chandler Asset Management**  
**IN RESPONSE TO**  
**REQUEST FOR PROPOSAL No. 1149**  
**Investment Management Services**



**CHANDLER RESPONSE TO INTERVIEW QUESTIONS**

**MARCH 12, 2013**



**CHANDLER ASSET MANAGEMENT RESPONSE**  
**CITY OF COSTA MESA**  
**INVESTMENT MANAGEMENT SERVICES**  
**INTERVIEW QUESTIONS**

**1. Grasp of the Project**

**a. Describe your understanding of the City's need for Investment Management Services.**

Our firm's President, Kay Chandler, and VP of Client Service, Mia Corral, have met with the City of Costa Mesa on several occasions. We have also completed a thorough analysis of the City's current portfolio, and through this process, we have gained a full understanding of the City's need for professional investment management services. We understand that staffing conditions and other circumstances have changed for the City of Costa Mesa over the last few years. In the past, personnel were available to provide in-house investment management services. Today, staff resources are more limited and the City is looking to partner with an outside firm such as Chandler to develop a permanent investment management solution and to serve as an extension to the City's investment staff. Chandler's team will partner with you to provide an optimal investment program customized specially for the City's unique requirements and objectives, incorporating the appropriate diversification, continuity, and consistent attention to the portfolio. We will provide increased transparency through our reporting process, and you will have access to a team of investment professionals who will proactively communicate with you to provide the City's investment program the essential resources and focused attention it requires.

**b. How do you integrate the Cash Flow needs of the City with your portfolio management?**

Chandler plays a proactive role in assisting clients to develop cash flow forecasts and to manage liquidity. The firm recognizes that liquidity is second only to safety on our clients' list of objectives. Public agencies have fluctuating cash flows and often rely on their portfolios to fund liquidity needs. At the beginning of our engagement, one of the primary tasks will be to understand the pattern of your cash flows. The firm implements two methodologies for developing cash flow projections. The first approach is a straightforward historical analysis of cash balances, which is a simplified, effective method for determining liquidity needs. The second method for developing a more robust and detailed cash flow analysis involves us providing our clients with a template that utilizes historical revenue/expenditure data by category to project future monthly changes to cash balances. Our clients have successfully implemented both

methodologies with our assistance. With an understanding of your cash flow requirements, we will target your investments to known cash flow dates.

For many clients, we implement an approach that segments the portfolio into Liquidity and Core components. The Liquidity portfolio is structured to include securities that mature on known cash flow dates, providing sufficient funds for net disbursements over the ensuing six months, and the Core portfolio is designed to enhance earnings and long-term growth. Because cash flow projections can only be estimates, we recommend a portfolio structure that includes an additional layer of short-term investments designed to be available for unpredicted cash expenditures. Once liquidity needs are met in the portfolio with LAIF and other short-term securities, we turn to investing the remainder of the portfolio in longer-term investments that meet your goals for portfolio growth over time. Securities in the Core component will have active markets and excellent liquidity should an unexpected event require liquidation of some of the securities.

## **2. Approach and Work Plan**

- a. Describe how the firm would integrate its investment process with the city's existing portfolio.

At the beginning of the engagement with the City of Costa Mesa, we will hold a kickoff meeting with you to understand and quantify your investment objectives, risk profile, and expected outcomes. We will evaluate the characteristics and risk/return profile of the City's current portfolio, and will analyze how well the structure fits with your return objectives and risk guidelines. We will review ways, if any, in which your portfolio might be restructured at the appropriate time using the philosophy and process that underlie our own portfolio management style. We will then construct a customized investment program that is designed to achieve the City's objectives for safety, liquidity and yield.

For example, we know the Option Adjusted duration of your portfolio was 0.61 years and the Modified duration of your portfolio was 0.91 years, as of December 20, 2012. In addition, 62% of the total portfolio had a duration less than six months (including LAIF). This suggests to us that the City probably had adequate – or even excess – liquidity. If this is the case, we will work with the City to invest in some securities with longer durations to achieve greater expected returns without sacrificing the need for liquidity. We will incorporate your existing holdings into our strategy as long as they are consistent with your investment objectives. Our course of action will be determined in conjunction with the City's investment staff.

- b. What are the issues the firm has experienced in past implementations?

Chandler Asset Management's sole focus is creating customized, optimal investment programs for our clients. Since 1988, we have seamlessly transitioned over 70 public sector clients to our management services. The level of experience and communication

that our team brings to this relationship will eliminate potential issues with the implementation of the City's investment program.

The goal of our detailed, formal implementation plan is to have the City "up and running" within a month of contract approval. Ted Piorkowski, your portfolio manager, Mia Corral, your relationship manager, and Nicole Drago, our COO/Chief Compliance Officer, will work closely with Mr. Young and Ms. O'Donoghue during the on-boarding process. Our entire team will proactively and regularly communicate with you throughout the implementation process.

c. Describe the City's responsibilities, requirements, supporting efforts needed in meeting your delivery of services.

The City has taken an important step in mitigating the risks and fulfilling its fiduciary duty by retaining an investment manager. Working with Chandler's team of professionals will allow the City to benefit from our resources and expertise, and this partnership will free up valuable City staff time and resources to focus on other initiatives.

In conjunction with the Chandler engagement team, the following Costa Mesa personnel would be participating in various stages of the implementation process and the ongoing management of the City's portfolio:

- Finance & Information Technology Director/Assistant Finance Director/Legal Counsel
  - Review the Investment Management Agreement.
- Finance & Information Technology Director/Assistant Finance Director
  - Complete custodial relationship documents with current custodian.
  - Confirm the investment strategy.
  - Confirm the benchmark selections.
  - Over time, evaluate the City's evolving investment objectives and constraints.
  - Communicate with our professionals regarding your portfolio.
  - Keep us apprised of any changes to the City's cash flow requirements through an ongoing dialogue.
  - Receive Chandler's reports via secure email or access account information through our secure web portal.
  - Meet with our professionals regarding the City's account, at your convenience.
- City Council Members/Other Government Officials
  - Approve the Investment Management Agreement.
  - Meet with our professionals regarding the City's account as they wish.

Chandler's investment management services do not require the placement of any equipment within the City of Costa Mesa. Your existing computer systems will be adequate to access information through our secure website: <https://camreport.chandlerasset.com/reportviewer/>.

d. The City's looking for a total return approach, describe your strategy.

Chandler utilizes a total return approach in the management of client portfolios. Our disciplined portfolio management process will be custom-tailored to the City of Costa Mesa's investment objectives. Based on your risk guidelines and liquidity requirements, as documented in your Investment Policy and elsewhere, our team will execute an investment program designed to add value in the following ways:

- We will maintain portfolio duration within a narrow band around the target duration you have selected in order to manage market risk;
- We will manage the portfolio's duration distribution in order to add value in a range of yield curve shapes;
- We will manage sector allocation based on analysis of market and credit conditions and in compliance with your investment guidelines;
- We will analyze relative value of individual securities and continuously review dealer inventories to identify securities that offer the best value for implementing our strategies; and
- We will maintain an ongoing dialogue with you through periodic investment meetings and frequent telephone contact with your staff.

We will propose one or more total return benchmarks to the City that reflect your objectives, risk tolerance and constraints. Benchmarks some of our other public agency clients have selected, which may also be appropriate for you, include the Bank of America/Merrill Lynch (BofA/ML) Blended 0-3 Year Treasury Index, the BofA/ML 1-3 Year US Treasury Index, and the BofA/ML 1-5 Year US Treasury & Agency Index. We can also discuss other possible benchmarks or even customize a benchmark for the City. We will report on the City's performance compared to your selected benchmark(s) over time.

e. How much excess return above your benchmark has the firm been able to generate utilizing this strategy?

Over the ten year period ending December 31, 2012, the Chandler Short Term Bond composite achieved an average annual excess return, gross of fees, of 0.34% (34 basis points) as compared to the benchmark. Please refer to **Appendix C** for the GIPS-compliant presentation. Past performance is not indicative of future results.

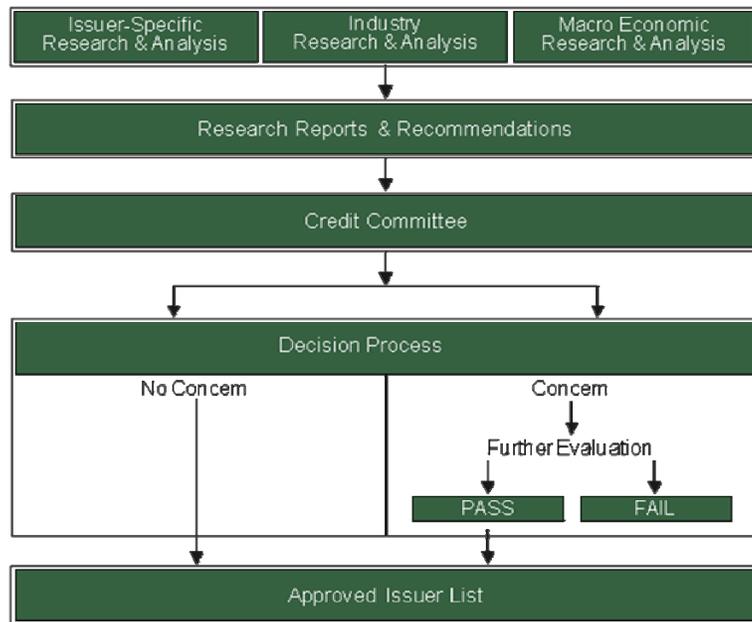
f. How does the firm manage interest rate risks?

Chandler manages interest rate risk by controlling portfolio duration compared to the benchmark, and by ensuring adequate liquidity to meet the City’s cash flow needs. Our disciplined process de-emphasizes interest rate forecasting and focuses on creating portfolios that outperform the market benchmark in all interest rate environments.

g. What is the firm’s process for credit analysis? Show an example.

Chandler’s investment team employs a diligent, proprietary credit analysis process designed for identification of stable and improving credits, as well as early detection of weak and deteriorating credits. The process includes both qualitative and quantitative aspects. The firm’s Credit Committee is responsible for fundamental macroeconomic, industry-wide, and issuer-specific analysis. Committee members, including the firm’s Credit Analyst, meet weekly to develop a disciplined and actionable credit strategy. Individual members of the Committee prepare research reports and recommendations on individual issuers based on a mosaic of qualitative and quantitative data. These reports and recommendations are thoroughly vetted by the full Committee. The Committee’s recommendations, including additions to and deletions from the Approved List, are subsequently reviewed by the entire Portfolio Management team and Chief Investment Officer Martin Cassell. Ultimate approval of credits is Marty’s responsibility.

**Chandler Asset Management  
Credit Analysis Process**



An example of a recent credit action occurred with International Business Machines (IBM). Our team reviewed IBM's fundamentals in order to determine if it was an appropriate holding for local agency portfolios with a 'AA' corporate credit rating minimum. At the time of this review, IBM had an Aa3 rating by Moody's and had recently been upgraded to AA- from A+ by S&P. The security was evaluated in comparison to other highly rated issuers, including Microsoft (MSFT) and Google (GOOG). Given the ratings on IBM (at the low end of the AA rating spectrum), relative weakness in the company's key credit ratios compared to some of its highly rated peers, the company's aggressive use of cash toward share repurchases, the high level of event risk in the technology sector, and the sluggish macroeconomic environment, we determined that IBM did not meet the stringent requirements to be added to our Approved Issuer List for public sector clients with a 'AA' corporate credit rating mandate.

Our primary concern was that IBM's revenue trend had recently declined and we were concerned that the company may feel pressure to support its equity share price through some form of shareholder-friendly activity (M&A, share repurchases, etc.) that could potentially put downward pressure on its credit ratings. Though we felt very comfortable that IBM was a high quality issuer and would maintain a credit rating of A or better, we felt that the company's industry and idiosyncratic risk was elevated at that time, and would not be appropriate for portfolios with a 'AA' corporate credit rating mandate.

**h. How does the firm perceive its fiduciary responsibility?**

As a SEC-registered investment adviser, we have a thorough understanding of our fiduciary duty to our clients and take this role very seriously, and Chandler has a fiduciary duty to your portfolio that is equal to your own.

We have worked diligently to develop a culture of fiduciary duty at Chandler. Consequently, the core elements of our compliance program are focused on fulfilling such specific fiduciary duties as loyalty, good faith, best execution, full and fair disclosure, placing the interests of our clients above our own, and providing advice that is suitable for each client, relative to their risk tolerances and investment objectives.

Pursuant to Rule 204A-1 under the Investment Advisers Act, we have adopted a Code of Ethics which holds each employee to a high ethical standard of business conduct and emphasizes our attention to our fiduciary duties. Additionally, senior members of our Portfolio Management team are bound as designated Chartered Financial Analysts to the strict ethical standards of the CFA Institute.

i. Describe the firm’s odd lot trading execution.

Based on the size of the City’s portfolio, an odd lot trade is not likely to occur. Our odd lot and round lot trading procedures are identical. The firm and its employees have a fiduciary duty to seek best execution of securities transactions that maximizes the City’s total benefit under the circumstances, whether it is a round lot or an odd lot trade.

Chandler considers a variety of factors when selecting a broker-dealer, including best price and quality of execution. All trades are executed on a competitive basis with broker/dealers on our Approved List, and a minimum of three quotations are always sought and documented on our trade tickets. We employ web-based platforms, including TradeWeb® and MarketAxess®, to execute many of our transactions. These online trading platforms facilitate efficient, low-cost trade execution, and serve as a means of documenting the transaction process.

We understand that pricing concessions may occur in purchasing or selling odd lot positions. The firm aggregates odd lot trades (combines the trades of several client portfolios) when possible to promote the best execution for our client portfolios. The investment team then allocates these positions to individual portfolios on a fair and equitable basis.

j. Provide the 1y, 3y, 5y modern portfolio theory statistical results of your representative public agency portfolios.

The following table provides the 1-, 3-, and 5-year modern portfolio theory statistical returns for the Chandler Short Term Bond composite:

**Chandler Asset Management**  
**Modern Portfolio Theory Statistical Returns \***  
**Short Term Bond Composite**  
**As of December 31, 2012**

	Composite Returns	Standard Deviation	Alpha	Beta	Sharpe Ratio
<b>1-Year</b>	1.79%	0.73	0.96	0.84	2.34
<b>3-Year</b>	2.89%	1.19	0.64	0.88	2.34
<b>5-Year</b>	3.80%	0.45	0.74	0.91	1.65

*\* Gross of fees. Please refer to **Appendix C** for our GIPS-compliant presentation. Past performance is not indicative of future results.*

- k. Describe 3 failed trades. How they were handled? What were the effects on the portfolio?

As the City's investment manager, Chandler will resolve any failed trades on your behalf. The firm has a team of Operations Specialists managed by Michael Ramos. This team is responsible for daily asset reconciliation, monitoring trade settlements, and maintaining our relationships with the broker/dealer community. Chandler uses Omgeo's robust OASYS software system for trade confirmation matching and for communicating allocations to brokers.

Scenarios that could lead to failed trades include the broker not having the securities to deliver to Chandler, the custodian bank missing the cutoff for entering the trade ticket, or there being mismatched information between the broker, the custodian bank, and Chandler. However, when failed trades occur, they are picked up immediately by the OASYS software system, and they are always resolved as quickly as possible. The party that committed the error that led to the fail would be responsible for any costs associated with it, and there would be no material or financial impact to the City's portfolio.

- l. Describe the process and provide the date the monthly Treasury reports will be provided.

Our Monthly Reports will be available online through our secure web portal no later than the third business day following month-end. The Monthly Reports will include all of the necessary information for the City to prepare its Treasury Reports: a management summary of portfolio characteristics; details of securities held; portfolio composition and sector allocation; total return compared to the selected market benchmark; duration; weighted average maturity; yield; market value; and book value. All of our reports can be customized to meet your needs.

- m. A Fidelity Bond would be required of the vendor. Will the firm be able to provide one?

Chandler will provide proof of our Fidelity Bond coverage upon execution of the Investment Management Agreement. Please see **Appendix A** for a sample of our Certificate of Insurance.

- n. Provide an investment report with net and gross return.

Please refer to **Appendix B** for our sample performance report, which includes returns both net and gross of fees.

### 3. **Qualifications and Experience**

#### a. Describe your firm's competence, support staff, turnover.

For nearly 25 years, the primary focus for Chandler has been managing funds for governmental entities. Chandler's expertise is developing customized solutions for the investment programs of public sector clients, based on their specific requirements and risk profiles. We will work with the City on each aspect of your investment program, including cash flow analysis and forecasting, investment policy development and review, risk/return analysis, recommending market benchmarks for performance analysis that mirror your risk/return profile, performance reporting, consulting on the investment program, and accounting and reporting for management, accounting staff, and City Council members/Other government officials.

Our entire team is committed to public agency investment portfolios. Both Kay Chandler, the firm's founder and President, and Martin Cassell, our CEO and Chief Investment Officer, began their careers as Investment Officers for public agencies. Kay spent 10 years as Investment Officer for first the County, and then later, the City of San Diego. Marty served as Investment Officer for the City of San Diego after Kay's tenure there.

Our Portfolio Management team, supported by the Investment Operations and Client Service teams, will all have responsibilities associated with your account. Kay Chandler will direct client relations for this engagement. Mia Corral, who joined the firm in 2004 and provides client service to our public sector clients throughout Southern California, will serve as the City's relationship manager. Ted Piorkowski, who is a Senior Portfolio Manager, will serve as the City's lead portfolio manager. He has successfully managed public sector portfolios for Chandler since joining the firm in 1999. He will lead the implementation of the City's investment strategy and will directly communicate with you on an ongoing basis.

During the first quarter of 2012, the firm added an Assistant Portfolio Manager and a Portfolio Management Associate to the investment team. We proactively add portfolio managers, client service and support professionals as needed. There have been no recent departures from our investment team.

#### b. Is any portion of this service sub-contracted out?

No sub-contractors will be involved in this relationship. All work will be performed by Chandler's team of professionals.

#### c. Who's the 3<sup>rd</sup> Party reviewing the firm's performance data?

Since 2007, Beacon Verification Services (Beacon) has reviewed our firm-wide GIPS presentations and attests to our compliance with GIPS standards on a quarterly basis. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Beacon has reviewed our performance dating back to 1997.

Our most recent GIPS Verification Letter is included in **Appendix C**.

- d. Are there any additional value added services the firm would like to propose to the City?

We will ensure the City has in place the framework, processes and services essential for an investment program that conforms to best practices in public sector investing. In addition to our expertise in providing the investment management services you request, Chandler is uniquely qualified to keep the City current on best practices through our staff's extensive involvement with public finance associations. Staff members are on committees that develop and update best practices and are regularly asked to teach and present on numerous investment topics. Our publications, such as the *Bond Market Review* newsletter and white papers on timely topics, are designed to provide you with insight, our conclusions, and talking points for you to use with elected officials, members of the public and any other interested parties. We can also draft ad hoc white papers for the City if needed.

We have developed and will provide educational opportunities on a wide range of investment topics, including duration, benchmark selection, total return strategies, corporate credit analysis, and other topics that promote understanding of investment concepts. We can schedule educational opportunities in conjunction with regular portfolio reviews or at other times more convenient for your staff.

We see ourselves as an extension of your staff, available to assist you in any area in which we have expertise.

- e. In order to facilitate the financial responsibility, City of Costa Mesa will request and evaluate Dun & Bradstreet (D&B) business analysis report from the prospective firm. If the financial information available through D&B is not sufficient to complete a satisfactory review will your firm offer to bring its latest completed comparative financial statement?

Chandler's financial information is accurate and up-to-date in D&B, and should be sufficient for the City to complete a satisfactory review of the firm. However, upon the

City's request, we can provide a copy of our latest completed, reviewed comparative financial statements.

- 4. Please prepare a brief demonstration of the software program you firm will use to service the City of Costa Mesa's account.**

We will be delighted to provide a brief demonstration of our extensive online capabilities and the software programs we will use to service the City of Costa Mesa's account.

**Chandler Asset Management**  
**IN RESPONSE TO**  
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**APPENDICES for INTERVIEW QUESTIONS**

**Chandler Asset Management**  
**IN RESPONSE TO**  
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**APPENDIX A**  
**Certificate of Insurance**

**Chandler Asset Management**  
**IN RESPONSE TO**  
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**Investment Management Services**



**APPENDIX B**  
**Sample Performance Report**



**CHANDLER**  
ASSET  
MANAGEMENT

**Net of Fees Performance Report  
as of 02/28/2013**

Period	Sample Portfolio		Index
	Gross of Fees	Net of 8.7 bps annual fee	
1 month	0.19%	0.18%	*ML 1-5 Year US Government
3 months	0.11%	0.09%	0.23%
Year to Date	0.14%	0.12%	0.07%
Lastest 12 Months	1.21%	1.12%	0.11%
Inception Date	7/31/2009	7/31/2009	1.02%
Since Inception	8.13%	7.80%	7/31/2009
Annualized Since Inception	2.21%	2.12%	7.12%
			1.94%

*This sample performance report is provided for illustrative purposes to demonstrate Chandler Asset Management's reporting capabilities. Past performance is not indicative of future returns.*

**Chandler Asset Management**  
**IN RESPONSE TO**  
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**APPENDIX C**

**GIPS Verification Letter; Short Term Bond Presentation**



# **GIPS® Compliance Verification Statement**

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## **Chandler Asset Management, Inc**

06/30/97 through 12/31/12



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## **GIPS® Compliance Verification Statement**

### **Chandler Asset Management, Inc Issued February 22, 2012**

The following report issued by ACA Verification Services, LLC (“ACA Beacon”) is for a firm-wide GIPS Verification of Chandler Asset Management, Inc’s (“Chandler”) claim of compliance with the Global Investment Performance Standards (“GIPS standards”) for the period June 30, 1997 through December 31, 2012.

We have examined whether Chandler (1) complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) designed its policies and procedures to calculate and present performance results in compliance with the GIPS standards for the period June 30, 1997 through December 31, 2012. Chandler’s management is responsible for compliance with the GIPS standards and the design of the policies and procedures that present the firm’s performance results in accordance with the GIPS standards. ACA Beacon’s responsibility is to express an opinion on Chandler’s compliance based on its verification procedures.

ACA Beacon has completed this firm-wide GIPS Verification in accordance with the required verification procedures set forth in the GIPS standards. It is ACA Beacon’s opinion that Chandler has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis. Furthermore, it is ACA Beacon’s opinion that Chandler’s policies and procedures were designed to calculate and present performance results in compliance with the GIPS standards for the period June 30, 1997 through December 31, 2012.

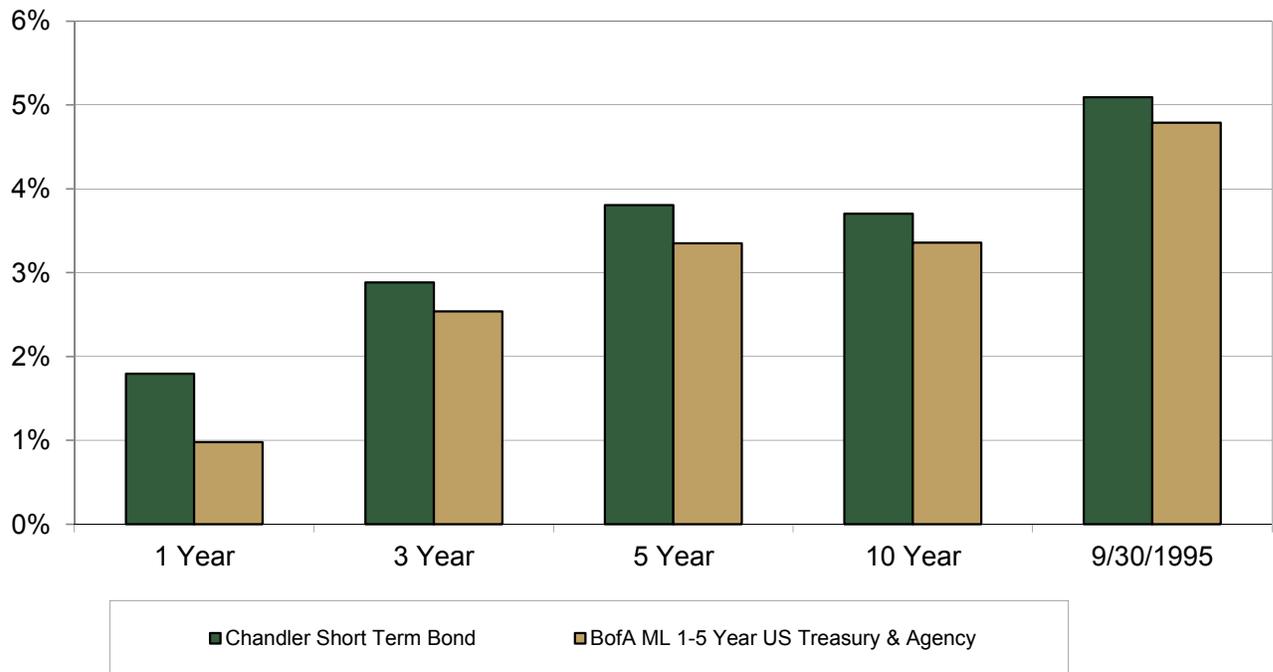
In performing the firm-wide verification addressed above, it is not ACA Beacon’s responsibility to express an opinion on any particular composite presentation nor does verification ensure the accuracy of any specific composite presentation. Chandler is responsible for the production and distribution of materials presented in conformity with the GIPS standards.

*ACA Verification Services, LLC*

ACA Verification Services, LLC

## INVESTMENT PERFORMANCE<sup>1</sup>

Short Term Bond  
December 31, 2012



Period	Chandler Short Term Bond	BofA ML 1-5 Year US Treasury & Agency
1 Year	1.80%	0.98%
3 Year	2.88%	2.54%
5 Year	3.80%	3.35%
10 Year	3.70%	3.36%
Since Inception 9/30/1995	5.09%	4.79%

<sup>1</sup>All performance figures greater than 1 year are annualized.

<sup>2</sup>Returns are presented gross of fees. Please see next page for additional information about the composite

**Short Term Bond  
Annual Rates of Return  
2003 through 2012**

Year End	Returns			3 Yr Annualized Standard Deviation		Dispersion	Assets			
	Total Gross	Total Net	Index	Composite	Index	Asset Wtd Std. Dev.	Number of Portfolios	Composite (MM)	Pct of Firm Assets	Firm (MM)
2003	2.75%	2.50%	2.15%	n/a	n/a	0.11%	14	459	26.4%	1,735.41
2004	1.89%	1.64%	1.45%	n/a	n/a	0.08%	17	464	23.7%	1,960.83
2005	1.58%	1.31%	1.45%	n/a	n/a	0.06%	17	508	20.0%	2,540.33
2006	4.44%	4.18%	4.04%	n/a	n/a	0.06%	21	898	31.1%	2,884.73
2007	7.45%	7.18%	7.88%	n/a	n/a	0.17%	24	1,074	32.7%	3,285.55
2008	7.65%	7.40%	8.37%	n/a	n/a	0.53%	22	1,202	33.9%	3,542.87
2009	2.80%	2.50%	0.91%	n/a	n/a	0.35%	29	1,554	35.4%	4,394.10
2010	3.97%	3.70%	3.46%	n/a	n/a	0.11%	33	1,906	37.5%	5,080.90
2011	2.90%	2.64%	3.19%	1.47%	1.65%	0.07%	32	1,866	35.7%	5,220.82
2012	1.80%	1.54%	0.98%	1.18%	1.27%	0.26%	38	2133	36.6%	5,824.76

Chandler Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Chandler Asset Management has been independently verified by Beacon Verification Services for the period of June 30, 1997 through December 31, 2012. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

1. Chandler Asset Management is an independent investment adviser registered as such with the Securities and Exchange Commission under the Investment Adviser's Act of 1940. Since 1988, Chandler Asset Management has provided fixed income investment management services to the public sector, as well as to foundations, endowments, individuals and corporations. A complete list and description of all of the firm's composites is available upon request.

2. The Short Term Bond Composite is a composite of individually managed accounts with an average modified duration approximately equal to the modified duration of the Bank of America Merrill Lynch 1-5 Year US Treasury & Agency Index and a maximum final stated maturity of individual securities of five years. The minimum account size required to be included in this composite is \$2 million. This composite was created in September 1995. The name of this composite was changed from 1-5 Year Government Fixed Income effective June 30, 2009.

3. The B of A Merrill Lynch 1-5 Year US Treasury & Agency Index is comprised of securities issued by entities of the US Government, including the US Treasury and Agencies such as Fannie Mae, Resolution Trust Funding and the Federal Home Loan Bank. Corporate or foreign debt guaranteed by the US Government, such as USAID securities, may also be included in the index. All securities in the index must be investment grade, have fixed coupon rates or rates that change according to a predetermined schedule, and have at least one year but not greater than five years to maturity regardless of any call features. Indexes are referred to for comparative purposes only and are not intended to parallel the risk or investment style of the portfolios in the Composite. Indexes do not utilize leverage. Index calculations do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index. Index data contained herein (and all trademarks related thereto) are owned by the indicated index provider, and may not be redistributed. The information herein has not been approved by the index provider.

4. Valuations are computed and performance reported in U.S. Dollars. Firm assets shown are those managed on a discretionary basis only and therefore may differ from the Regulatory Assets Under Management reflected on our Form ADV.

5. Performance is calculated using a time-weighted total rate of return, which links performance monthly, and is reported gross of investment management fees and custodial fees, but after all trading expenses. Results reflect the reinvestment of income, dividends and other earnings, and include realized and unrealized gains and losses and interest accrued through the last day of each month. Results do not reflect the potential impact of taxes. Past performance is not indicative of future results. Fees charged by Chandler Asset Management will reduce performance.

6. Net-of-fees performance returns are calculated by reducing the monthly gross performance by one-twelfth (1/12) of the actual maximum applicable fee of 0.25%, which is reflective of our current fee schedule for this composite. These monthly returns are then geometrically linked to produce annual returns which are presented before custodial fees but after management fees, all trading expenses and withholding taxes. An account of \$10 million charged a management fee of 0.40 of 1% and with an annualized total return of 6% would have a value of \$13,488,502 and would have paid fees of \$266,218 after five years. Fees are negotiable and additional information regarding Chandler's fees is included in our Part 2A of Form ADV.

7. Asset weighted standard deviation of annual returns relative to the composite return is presented as a measure of composite dispersion. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period and is required by GIPS for periods beginning after January 1, 2011. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.